

VZCZCXRO7298

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TO RUEHC/SECSTATE WASHDC PRIORITY 2577
INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY
RUCNCIS/CIS COLLECTIVE PRIORITY
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RUEHAK/AMEMBASSY ANKARA PRIORITY 5020
RUEHBJ/AMEMBASSY BEIJING PRIORITY 2775
RUEHKO/AMEMBASSY TOKYO PRIORITY 2640
RUEHIT/AMCONSUL ISTANBUL PRIORITY 3264
RHMFISS/CDR USCENTCOM MACDILL AFB FL PRIORITY
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
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RHEHNSC/NSC WASHDC PRIORITY
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RUEAIIA/CIA WASHDC PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 000414

SIPDIS

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E.O. 12958: DECL: 04/02/2019

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SUBJECT: TURKMENISTAN: SCHLUMBERGER DOING WELL, BUT NOT
WITHOUT ITS DRAMA

Classified By: Deputy Chief of Mission Sylvia R. Curran.
Reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: Schlumberger's general manager described the company's ongoing work, largely for foreign energy companies, in field development and management. Although things are generally going well, there have been some mini-dramas within both the companies that Schlumberger works with, as well as within its own operations, that will keep Turkmenistan listed in the "challenging" category. END SUMMARY.

¶2. (C) Poloff met on March 26 with Schlumberger general manager Patrick Van de Slijke, who said the company has been operating in Turkmenistan for about ten years. For a long time, Schlumberger was the only foreign company providing a range of complex field development services and technologies here, he added. The company has been a sub-contractor for Calik Energy, Burren, Dragon Oil, and occasionally works for CNPC. It has performed field development work at fields stretching from Balkanabat down along the Caspian coast, as well as at Yoloten. Schlumberger's Ashgabat office has a staff of 40, but a much larger office with 320 personnel is located in Balkanabat, from which all service and maintenance operations are managed for the whole country, he said.

¶3. (C) The country manager noted that the UAE-based Dragon Oil had been a good client in the past, but that recently the company had unexpectedly terminated a contract with the rig company CIS, which had been contracting with Schlumberger. He had heard that the company's Turkmen managers were in jail or missing, and that some sort of in-house scandal had occurred. (NOTE: Azerbaijani press reported on March 27 that Dragon Oil had made a statement that a department responsible for purchasing and contracts had been involved in a bribery and protectionism investigation, and that some senior managers had been dismissed for "improper conduct." END NOTE.)

14. (C) He said that the company's main client, Malaysian energy company Petronas, and BP are both interested in the block that Buried Hill is currently working under the terms of a production sharing agreement. Serdar/Kyapaz sits on the same fracture zone that Petronas' successful wells are sitting on, so the area, which is disputed with Azerbaijan, is almost certain to hold significant reserves. The two companies do not think Buried Hill intends to follow through with work beyond exploration, he said. Meanwhile, he said that Petronas has found oil on both sides of the fault where they are working in Block I. They have one rig available, but need another, and Schlumberger is hoping to play a role in its construction.

15. (C) Van de Slijke noted that the government's current onshore policy limits service companies' ability to expand business development and maximize their profits, because of the complications of contracting with government enterprises. The rate at which the government is contracting with service companies, he assessed, is too slow to make it sufficiently profitable for the companies. As a result, companies like Schlumberger will continue to prefer projects working for the foreign energy companies operating here, he said.

16. (C) The company also holds contracts with Turkmen State Oil Concern and Turkmen State Gas Concern, as well as Turkmen Geological Corporation, but the government contracts only constitute about ten percent of its overall business here. Van de Slijke said that although foreign companies are familiar with the array of technologies and services

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Schlumberger offers, the Turkmen Government generally has not been interested in the more modern equipment and techniques the company employs. He thought this lack of interest was because they do not understand the modern techniques that Schlumberger applies to make field development efficient and less costly. Instead, they cling to familiar techniques and methodologies from the Soviet era, he said. Even more frustrating, Schlumberger representatives have found it impossible to discourage Turkmen officials from employing old Soviet field management practices that have been found to cause equipment or facility damage further down the road.

17. (C) He noted that many of the Turkmen fields have problems with reservoir management. When it is done poorly, it results in producing more water than oil from a reservoir. The company has tried to suggest solutions to the problem when it has given presentations during oil and gas conferences here, in the hopes that a tutorial would help point the Turkmen in the direction of a technical solution, he added. A while back, the company offered to set up its premier gas lift technology at one well head so that it could demonstrate its impact on production, but Turkmen officials refused the offer, which showed that they were "still following the Soviet recipe," he said. Schlumberger has long undertaken an effort to minimize the impact of this mentality, and sends all of its local engineers abroad for extensive training, as well as technicians and mechanics, he said. Some of the higher training can take 3-5 years to complete, but is well worth the effort and cost.

18. (C) Van de Slijke said that in January 2009, shortly after President Berdimuhamedov publicly reprimanded Deputy Chairman Tagiyev, Tagiyev called the company manager into his office and said that the oil and gas fields were not meeting their production targets, and said that Schlumberger had to do more to help. However, Van de Slijke said that after he provided information regarding some specific procedures and technologies that could be employed at many of the fields in question to officials at the Ministry of Oil and Gas, he was never called back. For example, he said one specific problem that the Turkmen oil rigs struggle with is sand production, which can foul equipment and reduce production performance. He said it frustrates him that there are specific technologies that can keep sand production to a minimum, but

the idea has found no resonance with Turkmen officials. He also expressed concern that the Turkmen State Oil Concern has not made a payment in over seven months to Calik Energy, which built a well for the Concern with Schlumberger as sub-contractor. In addition to tax audits the government has undertaken on Schlumberger twice in the last three years, the company has also had problems with expatriate personnel getting involved with young Turkmen women in Balkanabat. In the last several years, the government has forcibly deported 6 Schlumberger employees for having had sexual relations with local ethnic Turkmen women. In spite of the company's warnings, and its efforts to construct facilities for their expat employees to keep them comfortable and happy, they still go looking for female companionship, he said.

19. (C) COMMENT: What Schlumberger's manager said about Turkmen officials clinging to old Soviet practices is something we have heard frequently from other Western companies, and reflects the continued human capacity problem here. Van de Slijke's comment about the Turkmen State Oil Concern not having paid on a contract in seven months is curious, raising the possibility that the Concern has been cash-strapped for a while, possibly due to the drop in global oil prices last year. This would suggest that we will see little in the way of additional service contracts in the oil

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sector unfolding in the coming months. END COMMENT.
MILES